

Message Text

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15

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC 5025

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS UNN

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UNCLAS LUXEMBOURG 0278

E. O. 11652: N/A

TAGS: EFIN, EEC, LU

SUBJECT: BELGIAN FRANC IN FRONT LINE FOR SUPPORT

REF: EC BRUSSELS 02602

1. IN THE WAKE OF THE WITHDRAWAL OF THE FRENCH FRANC FROM THE EUROPEAN MONETARY SNAKE AND THE DISMANTLING OF THE NARROWER BENELUX MINI-SNAKE, ATTENTION SEEMS TO HAVE SHIFTED TO THE BELGIAN FRANC. FOLLOWING THE OFFICIAL ANNOUNCEMENTS BY HIS FRENCH AND BELGIAN COUNTERPARTS REPORTED IN REFTEL, GOL FINANCE MINISTER RAYMOND VOUEL DENIED RUMORS OF A DEVALUATION OF THE BELGIAN, AND THEREFORE OF THE LUXEMBOURG FRANC. VOUEL STRESSED THE MUTUAL UNCLASSIFIED

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DEFENSE ROLE OF THE SNAKE AND SAID THAT TEMPORARY

DIFFICULTIES FOR ONE OR ANOTHER CURRENCY WERE TO BE EXPECTED AFTER THE FRENCH WITHDRAWAL. HE SAW NO REASON TO DROP COMMON DEFENSE. VOUEL CITED THE REASSURING FIGURES OF A 25 BILLION FRANCS 1975 BALANCE OF PAYMENTS SURPLUS AND OF 100 BILLION FRANCS RESERVES FOR THE BLEU (BELGIUM-LUXEMBOURG ECONOMIC UNION) AS PROOF OF THE INHERENT STRENGTH OF THE BELGIAN FRANC. A DEVALUATION WOULD BE SOLELY THE RESULT OF SPECULATION.

2. ON HIS RETURN FROM BRUSSELS, RAYMOND KIRSCH, DEPUTY TO MINISTER VOUEL, DESCRIBED THE WEEKEND'S EVENTS TO ECON OFFICER. THE EXTRAORDINARY COST OF SUPPORTING THE FRENCH FRANC LAST WEEK HAD MADE STAYING IN THE SNAKE VIRTUALLY IMPOSSIBLE FOR FRANCE. IT IS EXPECTED THAT FRANCE WILL RETURN BUT WILL NOT REPEAT ITS UNFORTUANTE MISTAKE OF PEGGING THE FRANC TOO HIGH. KIRSCH MINIMIZED THE SIGNIFICANCE OF THE PASSING OF THE BENELUX MINI SNAKE OR "WORM" WITHIN THE SNAKE. HE SAID IT HAD LONG AGO SERVED ITS ORIGINAL PURPOSE AS A PRECURSOR OF A EUROPEAN MONETARY SNAKE AND ITS NARROWER MARGINS WERE NO LONGER NECESSARY OR PRACTICAL. IN RESPONSE TO A COMPARISON OF DUTCH AND BLEU ECONOMIC PROSPECTS AS THE LIKELY REASON FOR THE IMPOSSIBILITY OF MAINTAINING THE 1.50 PERCENT BENELUX BAND, KIRSCH RESOLUTELY REPEATED THE BLEU BALANCE OF PAYMENTS FIGURES. (A LOCAL NEWSPAPER QUOTED A "LUXEMBOURG MINISTER" THAT THE DUTCH ECONOMY WAS RUNNING FAST ON NATURAL GAS AND SO THE LINK HAD TO BE BROKEN.) KIRSCH EXPRESSED HIS HOPE THAT MONDAY'S ANNOUNCEMENTS WILL EASE CURRENCY PRESSURES FOR THE PRESENT AND THAT THE BELGIAN FRANC WILL EMERGE UNHARMED.

3. PRIME MINISTER GASTON THORN HAS EXPRESSED REGRET OVER THE FRENCH ACTION AS A WEAKENING OF EUROPEANISM. THORN STATED THAT ECONOMIC AND FINANCIAL PROBLEMS ARE CLOSELY TIED TO OVERALL EUROPEAN COOPERATION AND THE WITHDRAWAL OF THE FRENCH FRANC WOULD NOT HELP MATTERS AT THE NEXT EC SUMMIT (SCHEDULED FOR APRIL 1). THE BELGIAN-LUXEMBOURG FRANC IS NOW AT THE BOTTOM OF THE SNAKE AND AS SUCH THE NEW TAGET FOR SPECULATORS. THE BLEU GOVERNMENTS SO FAR SEEM DETERMINED TO WARD OFF THEIR ATTACKS.

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4. THE BELGIAN NATIONAL BANK AND THE BUNDESBANK HAVE REPORTEDLY ALREADY TAKEN STEPS TO SUPPORT THE FRANC WHICH ON MONDAY HAD FALLEN TO ITS LOWEST EVER LEVEL AGAINST THE GERMAN MARK. FARKAS

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